

**Nordica Life (Bermuda) Ltd.**  
(Incorporated in Bermuda)

Financial Statements  
**December 31, 2014**  
(expressed in United States dollars)

# MOORE STEPHENS & BUTTERFIELD

CHARTERED PROFESSIONAL ACCOUNTANTS

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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NORDICA LIFE (BERMUDA) LTD.**

We have audited the accompanying financial statements of Nordica Life (Bermuda) Ltd. (the "Company"), which comprise the balance sheet as at December 31, 2014, and the statement of operations, statement of changes in equity, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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the world*

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Morse Stephens & Butterfield*

Chartered Professional Accountants  
Hamilton, Bermuda  
April 27, 2015

**NORDICA LIFE (BERMUDA) LTD.**  
**BALANCE SHEET**  
**DECEMBER 31, 2014**  
(Expressed in United States dollars)

		December 31 2014	December 31 2013
	Note	\$	\$
<b>ASSETS</b>			
Cash and cash equivalents		2,072,201	2,458,817
Fees receivable		416,892	487,171
Other accounts receivable		43,810	37,406
Wealth management client assets held in trust (non-separated accounts)	3	7,775,006	7,035,368
Wealth management client assets held in separated accounts	3	212,260,093	241,299,496
		222,568,002	251,318,258
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	5	482,965	499,776
Commissions payable		110,318	122,734
Provision for future policy benefits		603,427	543,063
Liabilities related to non-separated accounts	3	7,775,006	7,035,368
Liabilities related to separated accounts	3	212,260,093	241,299,496
		221,231,809	249,500,437
<b>EQUITY</b>			
Contributed equity	4	650,000	650,000
Retained earnings		686,193	1,167,821
		1,336,193	1,817,821
		222,568,002	251,318,258

See accompanying notes to the financial statements.

Approved by the Board of Directors:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

**NORDICA LIFE (BERMUDA) LTD.**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
(Expressed in United States dollars)

		December 31 2014	December 31 2013
	Note	\$	\$
<b>Revenues</b>			
Fee income	3	1,604,126	2,050,298
Life insurance premiums	3	66,857	82,629
Foreign exchange gain		2,636	669
Interest		0	776
		1,673,619	2,134,372
<b>Expenses</b>			
Acquisition costs		349,453	470,446
Change in provision for future policy benefits		60,364	50,958
General and administrative expenses	5	612,196	715,749
Interest		3,234	0
		1,025,247	1,237,153
<b>Net income</b> (\$1.00 per share (2013 – \$1.38 per share))		648,372	897,219

*See accompanying notes to the financial statements.*

**NORDICA LIFE (BERMUDA) LTD.**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

(Expressed in United States dollars)

	December 31 2014	December 31 2013
Note	\$	\$
<b>Contributed equity</b>		
Common stock - \$1 par value		
Authorised - 650,000 shares		
4	650,000	650,000
<b>Retained earnings</b>		
	1,167,821	1,220,602
	648,372	897,219
	(1,130,000)	(950,000)
	686,193	1,167,821
	1,336,193	1,817,821

*See accompanying notes to the financial statements.*

**NORDICA LIFE (BERMUDA) LTD.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
(Expressed in United States dollars)

	December 31 2014 \$	December 31 2013 \$
<b>OPERATING ACTIVITIES:</b>		
Net income	648,372	897,219
Adjustments for non-cash items and working capital changes:		
Decrease (increase) in fees receivable	70,279	(2,645)
Decrease (increase) in other accounts receivable	(6,404)	16,967
Decrease in accounts payable and accrued liabilities	(16,811)	(72,878)
Decrease in commissions payable	(12,416)	(6,317)
Increase in provision for future policy benefits	60,364	26,279
<b>Net cash from operating activities</b>	<b>743,384</b>	<b>858,625</b>
<b>FINANCING ACTIVITIES:</b>		
Dividends paid	(1,130,000)	(950,000)
<b>Cash used in financing activities</b>	<b>(1,130,000)</b>	<b>(950,000)</b>
Net decrease in cash and cash equivalents	(386,616)	(91,375)
<b>Cash and cash equivalents, beginning of year</b>	<b>2,458,817</b>	<b>2,550,192</b>
<b>Cash and cash equivalents, end of year</b>	<b>2,072,201</b>	<b>2,458,817</b>

*See accompanying notes to the financial statements.*

**1. General**

Nordica Life (Bermuda) Ltd. (the "Company") was incorporated under the laws of Bermuda on October 14, 1996. The Company holds a Class C license under the 1978 Insurance Act of Bermuda to write life insurance and is governed by the Nordica Life (Bermuda) Ltd. Act, 1997. This Private Act of Parliament enables a wealth management client to request the establishment of a separate wealth management fund/policy account (termed "separated account" under the Act). The effect of creating these separate accounts is to ensure that the assets linked to each wealth management client's funds/policies are available only to the wealth management policyholder or beneficiary on this specific policy, and not to other creditors of the Company, general or otherwise.

In addition to wealth management, the Company writes unit-linked life insurance products that provide for a death benefit consisting of a fixed amount or a percentage of the policy value. At December 31, 2014, the Company's average exposure per policy is \$17,117 (2013 - \$21,626).

In addition to premiums written for its own account the Company receives a fee based on a percentage of invested assets or a flat fee, earned for structuring, facilitating and providing on-going management of the wealth management programs introduced by external brokers. In addition to brokers fees settled, the Company has, in turn, appointed a related company as Administrator to whom certain agreed fees are paid.

The registered office of the Company is located at Swan Building, 26 Victoria Street, Hamilton, HM 12 Bermuda. The Company is listed on the Bermuda Stock Exchange Mezzanine Market and its majority shareholder is First Universe Finance Ltd.

Certain comparative balances have been reclassified in these financial statements to conform with the presentation adopted in the current year.

**2. Significant accounting policies**

The Company's significant accounting policies, which have been applied consistently throughout the year, are summarized as follows:

***Basis of presentation***

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. These financial statements are prepared under historical cost convention as modified by the fair valuation of securities and financial assets. The Company's functional and presentation currency is US Dollars. The financial statements are presented in US Dollars. The preparation of financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue earned and expenses incurred during the reporting period. Actual results could differ from those estimates.



2. **Significant accounting policies** *(continued)*

***Separated accounts assets and liabilities and non-separated accounts assets and liabilities held in Trust***

Separated accounts assets and non-separated accounts assets held in Trust are in respect of wealth management clients. Separated accounts assets are legally insulated from the Company's general funds and other policy holder funds held in trust by the Company.

A wealth management clients' account would normally include initial funds (termed "premiums") paid into an investment program, investment gains (losses) attributable to the underlying assets, less a risk assessed premium due to the Company, less certain calculated and agreed net assets based fees for structuring, facilitating and provision of on-going management of the wealth management programs provided by the Company (a portion of which is paid to the Company's brokers, administrator and advisors) less withdrawals (termed "surrenders") paid to either the wealth management client or designee.

The Company has adopted the method of "deposit accounting" relating to its wealth management transactions where the assets and liabilities of these wealth management transactions move in tandem.

***Premiums and surrenders***

Risk based premiums due to the Company's account are recorded by the Company on the accruals basis.

Under deposit accounting, wealth management client funds (premiums) are recorded when received and surrenders are recorded when paid. Where such premiums are received in respect of proposals, which were not accepted (by agreement or policy terms) at the balance sheet date, these funds are reflected as "*Funds received on policies not yet accepted*" with the matching offsetting liability similarly described.

***Provision for future policy benefits***

The provision for future policy benefits represents management's best estimate of the Company's liability for death claims on underlying policies in force at the balance sheet date, which are subject to review annually by an independent actuary. These estimates are continually reviewed and are necessarily subject to the impact of future changes in such factors as claims severity and frequency. While management believes that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided and any adjustments will be reflected in the periods in which they become known.

***Investment valuation policies***

In accordance with IAS 39, the Company categorises its general investments (at the time of purchase) into one of three categories: 'held-to-maturity', 'trading' and 'available-for-sale' and re-evaluates such designation on a regular basis. Investments, where the Company has the intent and ability to hold the investment to maturity, are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. All other investments (if any) are otherwise categorised as trading.

**2. Significant accounting policies** *(continued)*

With respect to separated accounts assets and non-separated accounts assets held in trust, the wealth management client bears all investment risk thus the Company is not exposed to any market, credit, currency, or interest rate risk on these investments. The Company therefore uses all reasonable means to record the underlying wealth management clients assets at fair value with the exception of promissory note interest which may or may not be reflected, unquoted investments which are primarily valued at cost (which may or may not be representative of fair value) and certain other private investments which are also recorded at management's best estimate of fair value. Valuation of quoted investments comprises values as derived from reports from the appointed custodian banks and fund administrators which may or may not be reflective of fair value since specific valuation methods (bid pricing, last reported pricing or mean pricing evaluations) will vary depending on the wealth management product chosen and/or because of custodian bank pricing models adopted. Investments in collective investment schemes are primarily based on reports from the fund administrators, which are subject to price timing differences.

***Determination of income***

Investment income derived from general cash and cash equivalents is recognised as earned and interest income on the Company's general interest-bearing instruments is recorded on the accrual basis using the effective yield method.

Unrealised gains and losses arising from changes in the fair value of the Company's general investments is recognised in a separate component of equity until sold unless the recoverable amount of the investment is considered permanently impaired whereupon an impairment loss is recognised in the statement of operations.

Realised gains (losses) arising on disposal of the Company's general investments are calculated using the specific identification method and recorded in income as they arise.

All purchases and sales of investments are recorded on the trade date basis.

The Company uses deposit accounting with respect to all investment income arising on investments included in separated accounts assets and non-separated account assets held in trust.

***Fee income and life insurance premiums***

Fee income includes investment management, set up and on-going fees recognised on the accrual basis as earned and recovered from wealth management clients separated account funds and non-separated accounts funds held in trust on a policy-by-policy basis based upon on the investment valuation policies adopted.

2. **Significant accounting policies** *(continued)*

Life insurance premiums are recorded at the inception of the policy period and recovered from wealth management clients separated account funds and non-separated accounts funds held in trust on a policy-by-policy basis.

**Acquisition and administrative expenses**

Acquisition expenses comprise commissions paid to the Company's brokers under various arrangements, which are recognised when incurred, with any prepaid portion deferred in the balance sheet. Administrative expenses charged by a company under common control are recorded as incurred on the accruals basis under agreement.

**Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies have been converted into US dollars at rates ruling at the balance sheet date. Income and expenses are translated at rates of exchange approximating the transaction date rates. Foreign exchange gains and losses are recognised in the separated accounts assets and non-separated accounts assets held in trust or statement of operations as appropriate.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are investments with original maturity of three months or less from the date of acquisition. The carrying value of these investments approximates their fair value because of their short maturity.

**Fair values**

The fair value of cash and cash equivalents, fees receivable, other accounts receivable, accounts payable and accrued expenses and commissions payable, approximates their carrying value due to their relative short term nature.

Management considers that it is not practicable to estimate the fair value of all investments in separated accounts and non-separated accounts held in trust.

The estimates of fair values presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realize in a current market exchange or indicative of the fair value of the wealth management account net assets. Any differences may or may not be material. Certain instruments such as the provision for future policy benefits are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine underlying economic value of the Company.

2. **Significant accounting policies** *(continued)*

***Payables and provisions***

Payables are stated at their nominal value.

The Company recognizes a provision if a present obligation has arisen as a result of a past event, payment is probable and the amount can be measured reliably. The amount recognized is the best estimate of the expenditure required to settle the present obligation at balance sheet date, that is, the amount the Company would rationally pay to settle the obligation to a third party.

***Related parties***

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related party transactions pertain to expenses paid or are owed to a company related through common control and are entered into on an arm's length basis.

***Risks***

Legal/regulatory risk is the risk that the legal or regulatory environment in which an insurer operates will change or that the tax rulings relevant to the Company's business model may change and create additional loss costs or expenses not anticipated by the insurer in pricing its products. That is, regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those recorded in the financial statements or the Company may not continue in its current form due to amended tax legislation. The Company mitigates this risk through its review of underwriting and loss adjusting practices and regularly reviews tax legislation, which identifies and minimizes the adverse impact of these risks.

Credit risk is the risk that issuers of securities owned by the Company will default, or other parties that owe the Company money, will not pay. The Company minimizes this risk by adhering to a conservative investment strategy, by maintaining sound credit and collection policies, and by providing for any amounts deemed uncollectible.

***Taxation***

As an entity organized under the laws of Bermuda, the Company is not currently subject to taxation in Bermuda, as Bermuda does not impose any form of direct taxation on receipts, dividends, capital gains, gifts or net income. In the event that such direct forms of taxation eventuate, the Company has received a tax exemption certificate, valid through March 2035.

***Subsequent events***

Any post year-end event that provides additional information about the Company's position at the balance sheet date (adjusting event), is reflected in the financial statements. Any post year-end that is not adjusting event is disclosed when material to the financial statements.

2. **Significant accounting policies** *(continued)*

*Recent accounting pronouncements*

**Fair Value Measurement**

In May 2011, the IASB issued IFRS 13 - Fair Value Measurement ("IFRS 13"). This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value.

IFRS 13 is effective for annual periods on or after January 1, 2013, with earlier application permitted. This IFRS is to be applied prospectively as of the beginning of the annual period in which it is initially applied and the disclosure requirements do not need to be applied in comparative periods before initial application. The adoption of IFRS 13 did not have a material impact on the Company's financial statements.

**Items of Other Comprehensive Income**

In June 2011, the IASB issued an amendment to IAS 1 – Presentation of Items of Other Comprehensive Income ("amendments to IAS1"). The amendments to IAS1 are the result of a joint project with the US Financial Accounting Standards Board and provide guidance on presentation of items contained in other comprehensive income ("OCI") and their classification within OCI. The amendments to IAS1 require items of OCI, along with their tax effects, to be grouped into those that will and will not subsequently be reclassified to profit or loss. The measurement and recognition of items of profit or loss and OCI are not affected by the amendments.

This amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. This amendment did not have a material impact on the Company's financial statements.

**Financial instruments**

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39, and is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as FVTPL, financial guarantees and certain other exceptions. The IASB has issued exposure drafts addressing impairment of financial instruments, hedge accounting and the offsetting of financial assets and liabilities. The Company will evaluate the impact the final standard will have on its financial statements when issued.

**3. Separated accounts assets and non-separated accounts assets held in trust**

Separated accounts assets and non-separated accounts assets held in trust are maintained on a policy-by-policy basis. As at December 31, 2014, and 2013, the summary totals of these wealth management assets, broken down by valuation method are as follows:

	2014	2013
	\$	\$
<b>Wealth management non-separated accounts:</b>		
Investments held at reported market value	4,226,967	2,303,745
Investments held at estimated cost	3,548,039	4,731,623
	<u>7,775,006</u>	<u>7,035,368</u>
<b>Wealth management separated accounts:</b>		
Investments held at reported market value	179,432,685	196,517,155
Investments held at estimated cost	32,827,408	44,782,341
	<u>212,260,093</u>	<u>241,299,496</u>

Certain separated wealth management accounts utilize margin trading.

From time to time, the assets maintained on the separated accounts may be pledged as collateral to secure loans acquired for that specific account. This is a normal practice in the Company's course of business and does not restrict the general assets of the Company.

**NORDICA LIFE (BERMUDA) LTD.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**3. Separated accounts assets and non-separated accounts assets held in trust** *(continued)*

The annual summary transactions in separated accounts assets and non-separated accounts assets held in trust for the years ended December 31, 2014, and 2013 comprise the following:

	2014	2013
	\$	\$
<b>Additions to wealth management accounts:</b>		
Funds (premiums) contributed	25,318,303	12,846,987
Investment income and revaluation gains	25,464,729	38,652,358
Unrealized foreign exchange gains	-	851,177
	<u>50,783,032</u>	<u>52,350,522</u>
<b>Deductions from wealth management accounts:</b>		
Funds (surrenders) withdrawn	36,671,827	42,301,904
Company fees recovered and/or due for settlement	1,604,126	2,050,298
Unrealized foreign exchange losses	40,739,987	-
Life insurance premiums for the Company's account	66,857	82,629
	<u>79,082,797</u>	<u>44,434,831</u>
Increase (decrease) in wealth management accounts in the year	<u>(28,299,765)</u>	<u>7,915,691</u>
Non-separated accounts, beginning of year	7,035,368	6,602,085
Separated accounts, beginning of year	241,299,496	233,817,088
	<u>248,334,864</u>	<u>240,419,173</u>
<b>Non-separated accounts, end of year</b>	7,775,006	7,035,368
<b>Separated accounts, end of year</b>	<u>212,260,093</u>	<u>241,299,496</u>
	<u>220,035,099</u>	<u>248,334,864</u>

**4. Contributed equity**

The Company's contributed equity consists of 650,000 (2013 - 650,000) authorized common shares with a par value of \$1 each. At the balance sheet date, there are 650,000 (2013 - 650,000) issued and fully paid common shares outstanding.

**5. Related party transactions**

Included within the Company's general and administrative expenses are administration fees of \$478,552 (2013 - \$612,680) paid to a company related through common control, of which \$127,649 (2013 - \$148,974) is included in accounts payable and accrued liabilities as at December 31, 2014. The Company's management considers such general and administrative expenses to be on an arms-length basis.

**6. Statutory requirements**

The Company is required by its Insurance license to maintain capital and surplus greater than \$500,000. Actual statutory capital and surplus is \$1,292,383 (2013 - \$1,780,415) of which \$650,000 (2013 - \$650,000) relates to issued share capital, and accordingly there is no restriction on the amount of retained earnings available for the payment of dividends to shareholders.

**7. Financial risk management**

(a) Market Risk

(i) *Currency Risk*

The Company does not hold any investments which are denominated in a foreign currency; therefore it is not exposed to any foreign currency risk.

(ii) *Equity Price Risk*

The Company did not hold any equity investments at December 31, 2014, therefore it is not exposed to any equity price risk.

(iii) *Interest Rate Risk*

The Company did not hold any interest bearing investments at December 31, 2014.

The impact of interest rate movements on wealth management clients' assets has not been considered as the Company's equity and profit are not impacted by changes in the values of these assets.

(b) Credit Risk

Credit risk arises mainly from investments held by the Company. The carrying amount of these financial assets represents the maximum credit exposure.

(c) Liquidity Risk

The Company maintains sufficient cash balances to meet its working capital requirements as monitored by the Board of Directors. However, due to the nature of the Company's liabilities, it is not possible to realistically estimate the due dates of the insurance liabilities.

It should be noted that liquid assets as reported on the balance sheet far exceed the Company's liabilities when the liabilities relating to wealth management client accounts are ignored.

(d) Capital Management

The Company has not invested its own capital but is holding it in cash placed on bank accounts in the different Custodian Banks. The money held in these accounts is managed to obtain the highest possible interest income. The Company has no debts besides the liabilities to the policyholders, as most fixed expenses are prepaid, and commissions and administrative expenses are paid when earned.



**8. Subsequent events**

The Company evaluated events and transactions occurring after December 31, 2014, through April 27, 2015, for potential recognition or disclosure in the notes to financial statements. Management believes that there are no post-year-end events that need to be reflected in the financial statements or disclosed in the notes to financial statements.